

OFFICE OF FINANCE PROGRAMS  
MARYLAND ECONOMIC ADJUSTMENT FUND

(MEAF)

ANNUAL STATUS REPORT  
FISCAL YEAR 2013

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2013

MARYLAND ECONOMIC ADJUSTMENT FUND  
(MEAF)

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# DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

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## MARYLAND ECONOMIC ADJUSTMENT FUND (MEAF)

### History and Program Description

Maryland Economic Adjustment Fund (MEAF) was established in 1994 as a non-lapsing revolving fund to make loans to new or existing companies in communities suffering dislocation due to the defense adjustments, enabling the companies to modernize their manufacturing operations, develop commercial applications for technology, or enter into and compete in new economic markets. MEAF is comprised of funds from the US Economic Development Administration (EDA) and the State. An important note is that it is not a requirement of the Program that recipients are companies that have suffered as a result of a decline in defense spending, only that the firms reside in an area suffering dislocation due to defense adjustments. The following list represents the eligible jurisdictions for the federal component of the program:

All other jurisdictions are supported by the State funded component of the program. In addition to making loans to eligible companies, the fund is able to make grants for Revolving Loan Funds administered by local or regional governments, or non-profit economic development organizations.

Allegany County	Howard County
Anne Arundel County	Queen Anne's County
Baltimore City	Somerset County
Baltimore County	Washington County
Dorchester County	Worcester County
Harford County	

MEAF is the primary loan fund administered directly by the Department of Business and Economic Development (DBED or Department) intended to serve small and minority businesses that are unable to qualify for loans from traditional lending sources. MEAF is a critical component of the Department's strategy to cultivate, support and assist the small and minority business sector of Maryland's economy. In addition, the program is a vehicle through which the Department provides critical technical assistance and consultative support to small and minority-owned firms.

The recipient of loan assistance from MEAF will in all instances be a small business that is unable to qualify for financing assistance from traditional lenders. The inability to meet lending criteria of traditional lenders will be due to varying levels of impairment of the client's financial condition. At the point of "intake", MEAF prospects typically present a "risk profile" that diminishes their attractiveness to traditional lenders.

The role of MEAF is to fill the void in the project financing structure and deliver needed technical support that will help the business to overcome conditions that diminish their attractiveness to traditional lenders. MEAF financing assistance is intended to facilitate improvements that enable the business to stabilize and grow, create or retain jobs, pay taxes and qualify for financing from traditional lenders, thus eliminating the need for public funding support. In most cases, moving a MEAF prospect from the point of "intake" to "loan approval" and finally to "loan settlement" is a very time and labor-intensive process. Also, priority consideration for loans from MEAF will be given to defense contractors and companies started by former defense workers who lost their jobs with defense contractors.

As of June 30, 2003, the Maryland Competitive Advantage Financing Fund (MCAFF), which was one of the Department's small business assistance resources, was eliminated by Maryland's General Assembly as part of the Budget Reconciliation and Financing Act of 2003. The Department was authorized by the Act to transfer the

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balance of available funds in MCAFF (\$891,035) into a sub-fund under the Maryland Economic Adjustment Fund (MEAF) for use in assisting small businesses.

In July 2009, the Department initiated efforts with EDA and Maryland's General Assembly to obtain authorization for certain additional modifications to MEAF deemed necessary to ensure the continued availability of the resource, and to enhance the effectiveness of the program. The modifications that were proposed sought to broaden eligibility criteria so a greater number of businesses would be able to qualify for assistance from the program.

After careful consideration and review, EDA and the Maryland General Assembly approved modifications to the program that will expand the purpose, remove limitations on permitted uses, and broaden the pool of eligible applicants. The modifications also strengthen the loan approval process and allow added flexibility to select an appropriate interest rate for a loan from the program.

### **Program Performance Since Inception**

Since the inception of the program through June 30, 2013, the Department has approved one hundred seven (107) transactions including eighty-six (86) loans totaling \$8,994,900, three (3) interest subsidies totaling \$300,000 and eighteen grants to local government or non-profit economic development organization revolving loan funds totaling \$2,225,000. The total outstanding balance of loans to businesses and grants to revolving loan funds is \$2,537,334. Since the inception of the program through June 30, 2013, eighteen (18) loans, totaling \$1,165,482 have been charged-off. The Department expects to recover approximately \$993,656 (85%) of the amount charged-off through long-term collection efforts. The total of 107 transactions includes forty-three (43) loans and three (3) interest subsidy approvals under the former MCAFF program, which was de-authorized by Maryland's General Assembly as of June 30, 2003. The combined activity of the MEAF and MCAFF programs have contributed to the creation and retention of approximately 1,777 jobs, and encouraged approximately \$9.6 million in private capital investment.

### **Program Performance for Fiscal Year 2013**

The Department did not approve new MEAF projects in fiscal year 2013. At the time of the FY13 budget formation process, the Department estimated that the available balance in MEAF would be insufficient to support loans and grants in fiscal year 2013. As a result, the Department did not request and the Legislature did not authorize General or Special Fund appropriations for program activity.

### **Projected Program Performance for Fiscal Year 2014**

At the time of the FY14 budget formation process, the Department estimated that the available balance in MEAF was insufficient to support loans in fiscal year 2014. As a result, the Department did not request and the Legislature did not authorize General or Special Fund appropriations for program activity.

However, the Department observed improvement in repayment activity during the second half of fiscal year 2013, which increased the fund balance in the program. After re-evaluation, the Department submitted a Budget Amendment to request authorization to use funds in the program for loans to eligible projects. The Budget Amendment was approved in September 2013.

In addition, the Department is compelled to use the accumulated fund balance to ensure compliance with EDA policies, and minimize or avoid the possibility of sequestration of program funds. The Department has had discussions with EDA concerning the process to submit a request for new funds to recapitalize MEAF.

